



Financial Statements  
June 30, 2020

# Santa Cruz County Superintendent of Schools

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## Independent Auditor's Report

To the Governing Board  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools (the SCCOE) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the SCCOE's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Correction of Error**

As discussed in Note 16 to the financial statements, the prior year financial statements contained certain an error that was discovered during the current year. The prior year financial statements incorrectly included an agent multi-employer defined benefit other postemployment benefits plan as a trust fund. Accordingly, the beginning net position of the fiduciary fund financial statements has been restated to remove the trust fund. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedules, schedule of changes in the COE's net OPEB liability and related ratios, schedule of COE contributions for OPEB, schedule of changes in the COE's MPP Net OPEB liability and ratios, schedule of the COE's proportionate share of the net pension liability, and the schedule of COE's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Cruz County Superintendent of School's basic financial statements. The accompanying supplementary information such as the combining non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic

financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2021 on our consideration of the Santa Cruz County Superintendent of School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz County Superintendent of School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz County Superintendent of School's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

San Ramon, California  
April 20, 2021

## Introduction

This section of Santa Cruz County Superintendent of School's (SCCOE) annual financial report presents our discussion and analysis of the SCCOE's financial performance during the fiscal year that ended on June 30, 2020 with comparative information for the year ended June 30, 2019. Please read it in conjunction with the SCCOE's financial statements, which immediately follow this section.

## Financial Highlights

- Total net position was \$16,871,113 on June 20, 2020.
- Overall revenues for the SCCOE were \$67,033,174 while expenditures were \$69,246,289.
- The total long-term obligations other than OPEB and pension were \$8,628,090, which primarily includes \$8,158,808 of Certificates of Participation (COP) debt issuance.

## Overview of Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These sections together provide a comprehensive overview of the Santa Cruz County Superintendent of Schools. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position using the economic resources measurement focus and accrual basis of accounting.
- **Fund financial statements** focus on reporting the individual parts of the SCCOE operations in more detail. The fund financial statements comprise the remaining statements using the current resources measurement focus and modified accrual basis of accounting.
  - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
  - **Fiduciary fund** statements provide information about the financial relationships in which the SCCOE acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

### **Government-Wide Statements**

The government-wide statements report information about the SCCOE as a whole, using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the SCCOE's net position and how they have changed. Net position – the difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources – are one way to measure the SCCOE's financial health or position. Over time, increases or decreases in the SCCOE's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the SCCOE, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the SCCOE include government activities. Most of the SCCOE's basic services are included here, such as regular education, food service, maintenance and general administration. Property taxes, interest income, user fees, federal, state, and local grants finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the SCCOE's most significant funds, not the SCCOE as a whole. Funds are accounting devices that the SCCOE uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Education establishes other funds to control and manage money for particular purposes or to show that the SCCOE is meeting legal responsibilities for using certain revenues. The SCCOE has two kinds of funds:

Governmental funds - Most of the SCCOE's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in the determination of whether there are more, or fewer financial resources that can be spent in the near future to finance the SCCOE's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the reconciliation schedules of the government funds statement that explains the relationship (or differences) between them.



Fiduciary fund – the SCCOE is the fiduciary for assets that belong to the Special Education Coordinating Agency JPA. The SCCOE is responsible for ensuring that assets reported in the agency fund are used only for their intended purposes and by those to whom the assets belong. The SCCOE's agency fund reports fiduciary activities in a separate statement of fiduciary net position. We exclude these activities from the SCCOE-wide financial statements because the SCCOE cannot use the assets to finance its operations.

### Financial Analysis of the Entity as A Whole

#### Net Position

The SCCOE's net position was \$16,871,113 for the fiscal year ended June 30, 2020. Of this amount, (\$2,758,831) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the SCCOE's governmental activities.

**Table 1**

	Governmental Activities		Total Percentage
	2020	2019	Change 2020-19
<b>Assets</b>			
Current and other assets	\$ 46,993,390	\$ 45,352,861	4%
Capital assets	24,983,245	26,380,303	-5%
Total assets	\$ 71,976,635	71,733,164	0.3%
Deferred outflows of resources	12,263,128	11,174,399	10%
<b>Liabilities</b>			
Current liabilities	13,212,020	13,124,186	1%
Long-term liabilities	50,235,344	46,354,337	8%
Total liabilities	63,447,364	59,478,523	7%
Deferred inflows of resources	3,921,286	4,344,811	-10%
<b>Net Position</b>			
Net investment in capital assets	16,803,825	17,842,723	-6%
Restricted	2,826,119	3,741,920	-24%
Unrestricted	(2,758,831)	(2,500,414)	10%
Total net position	\$ 16,871,113	\$ 19,084,229	-12%

The (\$2,758,831) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 10 percent (\$2,758,831) compared to (\$2,500,414).

**Changes in Net Position**

The results of this year's operations for SCCOE as a whole are reported in the Statement of Activities on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Government Activities		Total Percentage Change
	2020	2019	2020-19
<b>Revenues</b>			
Program Revenues			
Charges for services	\$ 5,082,497	\$ 5,575,207	-9%
Operating and capital grants and contributions	21,014,790	18,724,107	12%
General Revenues			
Property and other taxes	14,116,217	13,533,424	4%
Unrestricted federal and state revenue	22,778,860	26,018,480	-12%
Interest and other miscellaneous revenue	960,246	5,589,950	-83%
<b>Total revenues</b>	<b>63,952,610</b>	<b>69,441,168</b>	<b>-8%</b>
<b>Program Expenses</b>			
Instruction	21,865,460	21,119,718	4%
Instruction-related activities	13,119,562	12,380,464	6%
Pupil services	4,255,877	4,369,222	-3%
General administration	8,032,286	8,559,078	-6%
Plant services	3,398,462	3,363,224	1%
Ancillary services	11,379	16,695	-32%
Community services	3,144,068	2,724,912	15%
Interest on long-term debt	266,595	277,701	-1%
Other outgo	12,072,036	15,829,339	-24%
<b>Total expenses</b>	<b>66,165,725</b>	<b>68,640,353</b>	<b>-4%</b>
<b>Increase (Decrease) in net position</b>	<b>\$ (2,213,115)</b>	<b>\$ 800,815</b>	<b>376%</b>

**Governmental Activities**

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$69,246,289. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14,116,217 because the cost was paid by those who benefited from the programs of \$5,082,497 or by other governments and organizations who subsidized certain programs with grants and contributions of \$21,014,790. We paid for the remaining "public benefit" portion of our governmental activities with \$22,778,860 in Federal and State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the SCCOE's largest functions: instruction including, special instruction programs and other instructional programs, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the SCCOE's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	2020			
	Total Cost of Services	Revenue from Operating/Capital Grants & Contributions	Revenue from Charges for Services and Sales	Net Costs
Instruction	\$ 21,865,460	\$ 5,142,898	\$ 456,048	\$ (16,266,514)
Instruction-related activities	13,119,562	2,502,189	2,326,818	(8,290,555)
Pupil services	4,255,877	1,600,253	349,195	(2,306,429)
General administration	8,032,286	722,504	285,977	(7,023,805)
Plant services	3,398,462	221,273	317,603	(2,859,586)
Ancillary services	11,379	3,089	6,520	(1,770)
Community services	3,144,068	1,558,318	952,208	(633,542)
Interest on long term debt	266,595	-	-	(266,595)
Other outgo	12,072,036	9,264,266	388,128	(2,419,642)
<b>Total</b>	<b>\$ 66,165,725</b>	<b>\$ 21,014,790</b>	<b>\$ 5,082,497</b>	<b>\$ (40,068,438)</b>

**Financial Analysis of the SCCOE's Funds**

The positive financial performance of the SCCOE as a whole is reflected in its governmental funds as well. As the SCCOE completed the year, its governmental funds reported a combined fund balance (modified accrual reporting method) of \$34,170,598.

Table 4

Governmental Fund	Balances and Activity			June 30, 2020
	June 30, 2019	Revenues	Expenditures	
County School Service	\$ 30,976,196	51,667,373	48,148,673	\$ 34,494,896
Charter School	271,115	2,974,511	3,594,639	(349,013)
Special Education Pass-Through	373,740	7,993,813	7,800,002	567,551
Child Development	38,476	1,294,090	1,266,241	66,325
Cafeteria	-	57,489	57,489	-
County School Facilities	496,339	-	1,105,500	(609,161)
<b>Total</b>	<b>\$ 32,155,866</b>	<b>\$ 63,987,276</b>	<b>\$ 61,972,544</b>	<b>\$ 34,170,598</b>

**General Fund Budgetary Highlights**

Over the course of the year, the SCCOE revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 18, 2020. (A schedule showing the SCCOE's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 66).

**Capital Assets and Debt Administration**

**Capital Assets**

On June 30, 2020, the SCCOE had invested \$36,186,210 (historical costs) in a broad range of capital assets, including land, buildings, and furniture and equipment (see Table 4 below). More detailed information about SCCOE's capital assets is presented in the notes to the financial statements.

**Table 5**

	Governmental Activities	
	2020	2019
Land	\$ 4,026,778	\$ 4,026,778
Land Improvements	86,147	83,952
Buildings and Improvements	29,540,134	28,621,342
Furniture and Equipment	2,510,564	3,021,341
Construction In Progress	22,587	797,813
	<hr/>	<hr/>
Totals at historical cost	36,186,210	36,551,226
	<hr/>	<hr/>
Total accumulated depreciation	11,202,965	10,170,923
	<hr/>	<hr/>
Net Capital Assets	<u>\$ 24,983,245</u>	<u>\$ 26,380,303</u>

**Long-Term Obligations**

At year end, the SCCOE had \$8,628,090 in long-term obligations other than OPEB and pension, which consisted of compensated absences and Certificates of Participation as shown in Table 6. More detailed information about the SCCOE's debt is presented in the notes to the financial statements.

**Table 6**

	Governmental Activities	
	2020	2019
Compensated absences	\$ 469,282	\$ 305,689
Certificates of participation (net)	8,158,808	8,515,993
	<hr/>	<hr/>
Total Long-Term Obligations	<u>\$ 8,628,090</u>	<u>\$ 8,821,682</u>

**Significant Accomplishments of Fiscal Year 2019-2020 Are Noted Below:**

In Fiscal Year 2019-20, the Santa Cruz County Office of Education began an effort to create a countywide warehouse that would track student data from birth to career. This data will allow the SCCOE and other providers to improve the delivery of services for students. This program connects families with resources they need to keep their children healthy and assigns them a Student Identification number at birth to house data that is important for the child's service provider to know.

In March 2020, Santa Cruz County entered a Statewide shelter-in-place, brought on by the COVID-19 Pandemic. The shelter-in-place included the creation of the distance learning environment, the remote work environment and a great deal of Federal and State legislation. The Santa Cruz County Public Health Department worked collaboratively to create a Safe School Reopening plan in an effort to bring students back into the classroom.

**Economic Factors and Next Year's Budgets**

It has now been seven years since the Revenue Limit funding calculation was eliminated and the State implemented the Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP). The SCCOE continues to receive the same funding level as in 2012-2013 due to the SCCOE's hold harmless funding status under LCFF and is not expected to receive additional funding for several more years. In order to address the flat funding, the SCCOE continues to make strategic changes to programs, and to pursue grant funding, to be able to continue to offer several programs that were previously funded under Categorical programs. These changes have enabled the SCCOE to offer compensation that allows it to continue to attract highly qualified teachers and staff by continuing to be competitive in the market.

The COVID-19 Pandemic brought many changes and uncertainty to the school's environment. There are significant concerns surrounding State revenues, school enrollment and the state of the economy. With the Statewide shelter-in-place in effect, and the economic uncertainty, the Governor enacted a ten percent reduction to state budgets. Although that reduction did not directly impact schools, the cut was indirectly felt throughout the county and the state. While the impact of the pandemic was felt worldwide, its financial impact on schools was not as significant as anticipated.

**Contacting the SCCOE's Financial Management**

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the SCCOE's finances and to demonstrate the SCCOE's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Liann Reyes, Deputy Superintendent, Business Services, at (831) 466-5601.

Santa Cruz County Superintendent of Schools

Statement of Net Position

June 30, 2020

	Governmental Activities
<b>Assets</b>	
Deposits and investments	\$ 34,614,413
Receivables	12,352,592
Prepaid expenses	26,385
Capital assets not depreciated	4,049,365
Capital assets, net of accumulated depreciation	20,933,880
Total assets	71,976,635
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	2,359,217
Deferred outflows of resources related to pension liability	9,903,911
Total deferred outflows of resources	12,263,128
<b>Liabilities</b>	
Accounts payable	11,595,186
Interest payable	20,612
Unearned revenue	1,227,606
Long Term Obligations:	
Current portion of long-term obligations other than OPEB and pension	368,616
Noncurrent portion of long-term obligations other than OPEB and pension	8,259,474
Net other postemployment benefit (OPEB) liability	801,177
Aggregate net pension liability	41,174,693
Total liabilities	63,447,364
<b>Deferred Inflows of Resources</b>	
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	45,662
Deferred inflows of resources related to pensions	3,875,624
Total deferred inflows of resources	3,921,286
<b>Net Position</b>	
Net investment in capital assets	16,803,825
Restricted for	
Educational programs	2,182,542
Other activities	643,577
Unrestricted	(2,758,831)
Total net position	\$ 16,871,113

Santa Cruz County Superintendent of Schools

Statement of Activities  
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction	\$ 21,865,460	\$ 456,048	\$ 5,142,898	\$ (16,266,514)
Instruction-related activities				
Supervision of instruction	8,557,330	2,309,821	2,085,672	(4,161,837)
Instructional library, media, and technology	334,385	-	-	(334,385)
School site administration	4,227,847	16,997	416,517	(3,794,333)
Pupil services				
Food services	53,398	-	21,711	(31,687)
All other pupil services	4,202,479	349,195	1,578,542	(2,274,742)
General administration				
Data processing	1,995,267	-	19,066	(1,976,201)
All other general administration	6,037,019	285,977	703,438	(5,047,604)
Plant services	3,398,462	317,603	221,273	(2,859,586)
Ancillary services	11,379	6,520	3,089	(1,770)
Community services	3,144,068	952,208	1,558,318	(633,542)
Interest on long-term obligations	266,595	-	-	(266,595)
Other outgo	12,072,036	388,128	9,264,266	(2,419,642)
Total governmental-type activities	<u>\$ 66,165,725</u>	<u>\$ 5,082,497</u>	<u>\$ 21,014,790</u>	<u>(40,068,438)</u>



Santa Cruz County Superintendent of Schools

Statement of Activities

Year Ended June 30, 2020

General revenues and subventions	
Property taxes, levied for general purposes	13,363,803
Taxes levied for other specific purposes	752,414
Federal and State aid not restricted to specific purposes	22,778,860
Interest and investment earnings	624,246
Interagency revenue	1,246
Miscellaneous	334,754
	<u>37,855,323</u>
Subtotal, General Revenues	
	<u>37,855,323</u>
Change in Net Position	(2,213,115)
Net Position - Beginning	19,084,228
	<u>19,084,228</u>
Net Position - Ending	<u><u>\$ 16,871,113</u></u>

Santa Cruz County Superintendent of Schools

Balance Sheet – Governmental Funds

June 30, 2020

	County School Service Fund	Special Ed Pass-through Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Deposits and investments	\$ 32,276,985	\$ 765,024	\$ 1,572,404	\$ 34,614,413
Receivables	7,613,509	4,223,146	515,937	12,352,592
Due from other funds	836,966	-	106,183	943,149
Prepaid expenses	26,385	-	-	26,385
<b>Total assets</b>	<b>\$ 40,753,845</b>	<b>\$ 4,988,170</b>	<b>2,194,524</b>	<b>\$ 47,936,539</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 5,242,288	\$ 4,420,619	\$ 1,932,279	\$ 11,595,186
Due to other funds	106,183	-	836,966	943,149
Unearned revenue	910,478	-	317,128	1,227,606
<b>Total liabilities</b>	<b>6,258,949</b>	<b>4,420,619</b>	<b>3,086,373</b>	<b>13,765,941</b>
<b>Fund Balances</b>				
Nonspendable	29,185	-	400	29,585
Restricted	2,150,620	567,551	31,922	2,750,093
Committed	1,200,000	-	-	1,200,000
Assigned	25,734,967	-	66,325	25,801,292
Unassigned	5,380,124	-	(990,496)	4,389,628
<b>Total Fund Balances</b>	<b>34,494,896</b>	<b>567,551</b>	<b>(891,849)</b>	<b>34,170,598</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 40,753,845</b>	<b>\$ 4,988,170</b>	<b>\$ 2,194,524</b>	<b>\$ 47,936,539</b>

Santa Cruz County Superintendent of Schools  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2020

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Total Fund Balance - Governmental Funds		\$ 34,170,598
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 36,186,210	
Accumulated depreciation is	<u>(11,202,965)</u>	
Net Capital Assets		24,983,245
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		
		(20,612)
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources related to		
Net other postemployment benefits	2,359,217	
Net pension liability	<u>9,903,911</u>	
Total Deferred Outflows of Resources		12,263,128
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources related to		
Net other postemployment benefits	(45,662)	
Net pension liability	<u>(3,875,624)</u>	
Total Defererred Inflows of Resources		(3,921,286)
Net postemployment benefit (OPEB) liability is not a current financial resource; therefore, it is not reported in the governmental activities.		
		(801,177)

Santa Cruz County Superintendent of Schools  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2020

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Net pension liability is not due and payable in the current period, and, therefore, is not reported as a liability in governmental funds.		(41,174,693)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities consist of		
Compensated absences (vacations)	(469,282)	
Certificates of participation	<u>(8,158,808)</u>	
Total Long-Term Liabilities		<u>(8,628,090)</u>
Total Net Position - Governmental Activities		<u><u>\$ 16,871,113</u></u>

Santa Cruz County Superintendent of Schools  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2020

	County School Service Fund	Special Education Pass-through Fund	Non Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local Control Funding Formula	\$ 30,431,765	\$ -	\$ 2,159,966	\$ 32,591,731
Federal sources	4,156,120	3,745,930	356,860	8,258,910
Other state sources	4,771,487	4,225,486	1,031,165	10,028,138
Other local sources	12,308,001	22,397	743,433	13,073,831
<b>Total Revenues</b>	<b>51,667,373</b>	<b>7,993,813</b>	<b>4,291,424</b>	<b>63,952,610</b>
<b>Expenditures</b>				
<b>Current</b>				
Instruction	15,476,782	-	3,623,615	19,100,397
Instruction-related activities:				
Supervision of instruction	7,947,001	-	-	7,947,001
Instructional library, media and technology	247,510	-	-	247,510
School site administration	3,070,660	-	783,338	3,853,998
Pupil services:				
Food services	-	-	54,689	54,689
All other pupil services	4,042,297	-	252,378	4,294,675
General administration:				
Data processing	1,810,432	-	-	1,810,432
All other general administration	5,331,611	-	130,983	5,462,594
Plant services	3,273,260	-	2,816	3,276,076
Ancillary services	11,654	-	-	11,654
Community services	1,873,500	-	1,161,050	3,034,550
Other outgo	4,272,034	7,800,002	-	12,072,036
Capital outlay	132,511	-	-	132,511
Facility acquisition and construction	-	-	15,000	15,000
Debt service				
Principal	357,185	-	-	357,185
Interest and other	267,570	-	-	267,570
<b>Total expenditures</b>	<b>48,114,007</b>	<b>7,800,002</b>	<b>6,023,869</b>	<b>61,937,878</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,553,366</b>	<b>193,811</b>	<b>(1,732,445)</b>	<b>2,014,732</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	34,666	34,666
Transfers out	(34,666)	-	-	(34,666)
<b>Net Financing Sources (Uses)</b>	<b>(34,666)</b>	<b>-</b>	<b>34,666</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>3,518,700</b>	<b>193,811</b>	<b>(1,697,779)</b>	<b>2,014,732</b>
Fund Balance - Beginning	30,976,196	373,740	805,930	32,155,866
<b>Fund Balance - Ending</b>	<b>\$ 34,494,896</b>	<b>\$ 567,551</b>	<b>\$ (891,849)</b>	<b>\$ 34,170,598</b>

Santa Cruz County Superintendent of Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended June 30, 2020

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Total Net Change in Fund Balances - Governmental Funds	\$ 2,014,732
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.</p>	
<p>This is the amount by which depreciation exceeds capital outlays in the period.</p>	
Depreciation expense	\$ (1,349,694)
Capital outlays	<u>145,761</u>
Net Expense Adjustment	(1,203,933)
<p>Loss on the disposal of capital assets is reported in the Statement of Activities but is not recorded in the governmental funds.</p>	
	(193,125)
<p>In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was less than the amounts used.</p>	
	(163,593)
<p>In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.</p>	
	(4,034,053)
<p>In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.</p>	
	1,008,697
<p>Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.</p>	
	357,185
<p>Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due, net of any issuance costs.</p>	
	<u>975</u>
Change in Net Position of Governmental Activities	<u><u>\$ (2,213,115)</u></u>

Santa Cruz County Superintendent of Schools  
Statement of Net Position – Fiduciary Fund  
June 30, 2020

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	<u>Agency Fund</u>
Assets	
Deposits and investments	<u>\$ 9,556</u>
Total assets	<u>9,556</u>
Liabilities	
Due to other agency	<u>9,556</u>
Total liabilities	<u><u>\$ 9,556</u></u>

**Note 1 - Summary of Significant Accounting Policies****Financial Reporting Entity**

The Santa Cruz County Office of Education (SCCOE) was organized circa 1861 under the laws of the State of California. The SCCOE operates under a locally elected seven-member Board and provides educational services to grades K-12 as mandated by the State and/or Federal agencies or local agreements. The SCCOE is the administrative unit for one Special Educational Local Plan Area (SELPA) and operates special education classes at nine school sites within the County of Santa Cruz. The SCCOE coordinates the Career Technical Education Program, operates Alternative Education programs at nineteen school sites around the county, including four court programs and nineteen community school programs. In addition, SCCOE has three charter schools in the county that it oversees and offers Medical and Dental Assisting programs for adults wishing to continue their education.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the SCCOE consists of all funds, departments, boards, and agencies that are not legally separate from the SCCOE. The SCCOE determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

**Other Related Entities**

**Charter School** The SCCOE is the chartering agency for the Pacific Collegiate Charter School (the charter school), a public benefit corporation organized under the Internal Revenue Code Section 501(c)(3). As the chartering agency, SCCOE has certain oversight responsibilities to ensure that the Charter School is in compliance with applicable Charter School laws and regulations. However, the SCCOE is not liable for the debts or obligations of the Charter School. The Pacific Collegiate Charter School's financial activity is presented in a separate report provided by the Pacific Collegiate Charter School.



**Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The SCCOE's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary. Currently there are no proprietary funds in use.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the SCCOE's major and non-major governmental funds:

**Major Governmental Funds**

**County School Service Fund** The County School Service Fund is the chief operating fund for the SCCOE. It is used to account for the ordinary operations of the SCCOE. All transactions except those accounted for in another fund are accounted for in this fund.

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as an extension of the County School Service Fund, and accordingly have been combined with the County School Service Fund for presentation in these audited financial statements.

As a result, the County School Service Fund reflects an increase in fund balance of \$3,680,648.

**Special Education Pass-Through Fund** A Special Education Pass-Through Fund, a special revenue fund, was established in 2011-12. This fund is used by the Administrative Unit (SCCOE) of a multi-Agency Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

**Non-Major Governmental Funds**

**Special Revenue Funds** The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Charter Schools Fund** The Charter Schools Fund may be used by authorizing county offices and districts to account separately for the operating activities of county office-operated charter schools that would otherwise be reported in the authorizing COE's General Fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (Education Code Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the SCCOE's food service program (Education Code Sections 38091 and 38100).

**Capital Project Funds** The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**County School Facilities Fund** The County School Facilities Fund, a capital project fund, is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the SCCOE's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the SCCOE under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the SCCOE's own programs. SCCOE has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The SCCOE's agency fund accounts for activities of the Special Education Coordinating Agency.

#### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is basically the same approach used in private sector financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The SCCOE does not allocate indirect expenses to functions in the

Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the SCCOE. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund financial statements report detailed information about the SCCOE. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the SCCOE.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The SCCOE considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the SCCOE receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is

recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue** Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the SCCOE prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the SCCOE has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### **Investments**

Investments held at June 30, 2020, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County investment pools are determined by the program sponsor.

### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The SCCOE has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The SCCOE has chosen to report the expenditures when paid.

**Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are long-lived assets of the SCCOE. The SCCOE maintains a capitalization threshold of \$5,000. The SCCOE does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: land improvements, 5 years; buildings and improvements, 25 years; furniture and equipment, 5-8 years.

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the government-wide statement of net position.

**Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the SCCOE's financial statements.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources are reported as liabilities of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The SCCOE reports deferred outflows of resources for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The SCCOE reports pension related items and for OPEB related items.

### **Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

### **Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the SCCOE Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the SCCOE Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the SCCOE Plan and the MPP. For this purpose, the SCCOE Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the County School Service Fund.

### **Fund Balances - Governmental Funds**

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the SCCOE. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the SCCOE's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the SCCOE considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the SCCOE considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### **Minimum Fund Balance**

In order to protect against revenue shortfalls or unpredicted one-time expenditures, it is the SCCOE's practice to maintain an amount equal to at least 3 percent of the County School Service Fund annual expenditures and other financing uses for economic uncertainties.

### **Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the SCCOE or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The SCCOE first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes on behalf of the SCCOE. Local property tax revenues are recorded when received.

### Change in Accounting Principles

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

The provisions of this Statement have been implemented as of June 30, 2020.



### **New Accounting Pronouncements**

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the SCCOE's financial statements have not yet been determined.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the SCCOE's financial statements have not yet been determined.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the SCCOE's financial statements have not yet been determined.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.

The issuer and the third-party obligor are not within the same financial reporting entity.

The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a

conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the SCCOE's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reporting
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits

- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the SCCOE’s financial statements have not yet been determined.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 34,614,413
Fiduciary funds	9,556
	_____
Total Deposits and Investments	\$ 34,623,969

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	\$ 110,627
Cash in revolving	3,200
Investments	<u>34,510,142</u>
 Total Deposits and Investments	 <u><u>\$ 34,623,969</u></u>

**Policies and Practices**

The SCCOE is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury** - The SCCOE is considered to be an involuntary participant in an external investment pool as the SCCOE is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the SCCOE's investment in the Pool is reported in the accounting financial statements at amounts based upon the SCCOE's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The SCCOE has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The SCCOE manages its exposure to interest rate risk by investing in the county pool and/or having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**Weighted Average Maturity**

The SCCOE monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the SCCOE's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Treasury Investment Pool	\$ 34,510,142	332

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The SCCOE's investments in the County Treasury Investment Pool and California Employer's Retirement Trust are not required to be rated, nor have they been rated as of June 30, 2020.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Unrated
County Treasury Investment Pool	\$ 34,510,142	N/A	\$ -	\$ -	\$ 34,510,142

N/A - Not Applicable

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the SCCOE's deposits may not be returned to it. The SCCOE does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2020, the SCCOE had no bank balance that was exposed to custodial credit risk.

**Note 3 - Fair Value Measurements**

The SCCOE categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the SCCOE has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the SCCOE's own data. The SCCOE should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the SCCOE are not available to other market participants.

Uncategorized - Investments in the Santa Cruz County Treasury Investment Pool are not measured using the input levels above because the SCCOE's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The SCCOE's fair value measurements are as follows at June 30, 2020:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
County Treasury Investment Pool	\$ 34,510,142	\$ -	\$ -	\$ -	\$ 34,510,142



**Note 4 - Receivables**

Receivables at June 30, 2020, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-through Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 829,833	\$ 3,772,416	\$ 149,827	\$ 4,752,076
State Government				
Apportionment	3,583,763	-	11,113	3,594,876
Categorical aid	942,462	450,730	80,398	1,473,590
Lottery	54,294	-	16,183	70,477
Other Local Sources	2,203,157	-	258,416	2,461,573
	<u>2,203,157</u>	<u>-</u>	<u>258,416</u>	<u>2,461,573</u>
Total	<u>\$ 7,613,509</u>	<u>\$ 4,223,146</u>	<u>\$ 515,937</u>	<u>\$ 12,352,592</u>

**Note 5 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 01, 2019	Additions	Deductions	Balance June 30, 2020
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 4,026,778	\$ -	\$ -	\$ 4,026,778
Construction in Progress	797,813	-	775,226	22,587
<b>Total Capital Assets Not Being Depreciated</b>	<b>4,824,591</b>	<b>-</b>	<b>775,226</b>	<b>4,049,365</b>
Capital Assets Being Depreciated				
Land Improvements	83,952	2,195	-	86,147
Buildings and Improvements	28,621,342	918,792	-	29,540,134
Furniture and Equipment	3,021,341	-	510,777	2,510,564
<b>Total Capital Assets Being Depreciated</b>	<b>31,726,635</b>	<b>920,987</b>	<b>510,777</b>	<b>32,136,845</b>
<b>Total Capital Assets</b>	<b>36,551,226</b>	<b>920,987</b>	<b>1,286,003</b>	<b>36,186,210</b>
Less Accumulated Depreciation:				
Land Improvements	69,532	7,727	-	77,259
Buildings and Improvements	7,808,031	1,168,233	-	8,976,264
Furniture and Equipment	2,293,360	173,734	317,652	2,149,442
<b>Total Accumulated Depreciation</b>	<b>10,170,923</b>	<b>1,349,694</b>	<b>317,652</b>	<b>11,202,965</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 26,380,303</b>	<b>\$ (428,707)</b>	<b>\$ 968,351</b>	<b>\$ 24,983,245</b>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Instruction	\$ 791,714
Instructional library, media, and technology	29,198
School site administration	792
All other administration	346,707
Data processing	20,283
Plant services	161,000
<b>Total Depreciation Expenses Governmental Activities</b>	<b>\$ 1,349,694</b>

**Note 6 - Interfund Transactions**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable at June 30, 2020, between major and non-major governmental funds are as follows:

Due To	Due From		Total
	County School Service Fund	Non-Major Governmental Funds	
County School Service Fund	\$ -	\$ 106,183	\$ 106,183
Non-Major Governmental Funds	836,966	-	836,966
Total	<u>\$ 836,966</u>	<u>\$ 106,183</u>	<u>\$ 943,149</u>

All balances resulted from the time lag between the date that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made in the subsequent fiscal year.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2020 consisted of the following:

Transfer To	Transfer From County School Service Fund
Non-Major Governmental Funds	<u>\$ 34,666</u>
The County School Service Fund transferred to the Cafeteria Fund to support operations.	<u>\$ 34,666</u>

**Note 7 - Accounts Payable**

Accounts payable at June 30, 2020, consisted of the following:

	County School Service Fund	Special Education Pass-through Fund	Non-Major Governmental Fund	Total Governmental Fund
Vendor payables	\$ 3,909,781	\$ 4,420,619	\$ 1,932,279	\$ 10,262,679
Local control funding formula	917,061	-	-	917,061
Salaries and benefits	415,446	-	-	415,446
<b>Total</b>	<b>\$ 5,242,288</b>	<b>\$ 4,420,619</b>	<b>\$ 1,932,279</b>	<b>\$ 11,595,186</b>

**Note 8 - Unearned Revenue**

Unearned revenue at June 30, 2020, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
State categorical aid	\$ 797,057	\$ 317,128	\$ 1,114,185
Other local	113,421	-	113,421
<b>Total</b>	<b>\$ 910,478</b>	<b>\$ 317,128</b>	<b>\$ 1,227,606</b>

**Note 9 - Long-Term Obligations other than OPEB and Pensions**

**Summary**

The changes in the SCCOE's long-term obligations other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Certificates of participation	\$ 8,515,993	\$ -	\$ 357,185	\$ 8,158,808	\$ 368,616
Compensated absences	305,689	163,593	-	469,282	-
<b>Total</b>	<b>\$ 8,821,682</b>	<b>\$ 163,593</b>	<b>\$ 357,185</b>	<b>\$ 8,628,090</b>	<b>\$ 368,616</b>

**Certificates of Participation**

In May 2007, the Santa Cruz County Office of Education issued certificates of participation in the amount of \$11,605,000 with interest rates ranging from 3.60 to 4.62 percent. During June 2016, the certificates of participation were refinanced in the amount of \$9,510,983 with interest rates of 3.175 percent. Interest with respect to the Certificates will be payable semiannually on each June 1 and December 1, commencing December 15, 2016, and maturing on June 15, 2037. As of June 30, 2020, the principal balance outstanding was \$8,158,808.

Year Ending June 30,	Principal	Interest	Total
2020	\$ 368,616	256,139	\$ 624,755
2021	380,413	244,343	624,756
2022	392,587	232,169	624,756
2023	405,150	219,605	624,755
2024	418,116	206,640	624,756
2025-2029	2,300,059	823,718	3,123,777
2030-2034	2,692,414	431,364	3,123,778
2035-2037	1,201,453	48,058	1,249,511
Total	<u>\$ 8,158,808</u>	<u>\$ 2,462,036</u>	<u>\$ 10,620,844</u>

**Compensated absences**

Compensated absences (unpaid employee vacation) for the SCCOE at June 30, 2020, amounted to \$469,282.

**Note 10 - Net Other Post Employment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2020, the SCCOE reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
Retiree Health Plan	\$ 676,621	\$ 2,359,217	\$ 45,662	\$ (1,133,253)
Medicare Premium Payment (MPP) Program	124,556	-	-	124,556
	<u>\$ 801,177</u>	<u>\$ 2,359,217</u>	<u>\$ 45,662</u>	<u>\$ (1,008,697)</u>

The details of each plan are as follows:

**SCCOE Plan**

**Plan Administration**

The SCCOE’s Postemployment Benefits Plan (the Plan) is administered by the California Public Employees’ Retirement System (CalPERS). The Plan is an agent multi-employer plan defined benefit plan. CalPERS administers the Plan through the California Employer’s Retiree Benefit Trust (CERBT).

**Plan Membership**

At June 30, 2020, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	66
Active employees	<u>239</u>
Total	<u><u>305</u></u>

**Benefits Provided**

The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The SCCOE’s governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

**Contributions**

The contribution requirements of the Plan members and the SCCOE are established and may be amended by the SCCOE, the Santa Cruz County Education Association/CTA/NEA (SCCEA/CTA/NEA), the local California School Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the SCCOE, SCCEA/CTA/NEA, CSEA, and the unrepresented groups. For fiscal year 2019-2020, the SCCOE contributed \$817,217 to the Plan, of which \$727,411 was used for current premiums and \$420,879 was used to fund the OPEB Trust.

**Investment**

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the SCCOE to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
US Large Cap	43%
US Small Cap	23%
Long-Term Corporate Bonds	12%
Long-Term Government Bonds	6%
Treasury Inflation Protected Securities	5%
US Real Estate	8%
All Commodities	3%

**Net OPEB Liability of the COE**

The SCCOE's net OPEB liability of \$676,621 was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the SCCOE at June 30, 2019, were as follows:

Total OPEB liability	\$ 9,736,281
Plan fiduciary net position	<u>(9,059,660)</u>
Net OPEB liability	<u>\$ 676,621</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>93.05%</u>

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.0 percent for 2019

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actual experience study for the period July 1, 2018 to June 30, 2019.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019, (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	7.6750%
US Small Cap	7.6750%
Long-Term Corporate Bonds	5.1750%
Long-Term Government Bonds	4.3800%
Treasury Inflation Protected Securities	7.6750%
US Real Estate	7.6750%
All Commodities	7.6750%



**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that the SCCOE contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset)/Liability (a) - (b)
Balance at June 30, 2018	\$ 7,944,716	\$ 8,396,296	\$ (451,580)
Service cost	403,067	-	403,067
Interest	550,815	-	550,815
Expected Investment Income	-	591,175	(591,175)
Administrative Expenses	-	(1,874)	1,874
Employer Contribution to Trust	-	764,019	(764,019)
Employer Contribution as Benefit Payment	-	109,099	(109,099)
Benefit payments from Trust	(664,019)	(664,019)	-
Expected Benefit Payment from Employer	(109,099)	(109,099)	-
Expected Minus Actual Benefit Payments	218,198	-	218,198
Experience (Gains)/Losses	1,392,603	-	1,392,603
Investment Gains/ (Losses)	-	(25,937)	25,937
<b>Net change in total OPEB liability</b>	<b>1,791,565</b>	<b>663,364</b>	<b>1,128,201</b>
Balance at June 30, 2019	<u>\$ 9,736,281</u>	<u>\$ 9,059,660</u>	<u>\$ 676,621</u>

**Sensitivity of the Net OPEB Asset to Changes in the Discount Rate**

Net OPEB liability of the SCCOE, as well as what the SCCOE's net OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (6.0%)	\$ 1,396,793
Current discount rate (7.0%)	676,621
1% increase (8.0%)	45,613

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates

Net OPEB liability of the SCCOE, as well as what the SCCOE's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (3.0%)	\$ 44,583
Current healthcare cost trend rate (4.0%)	676,621
1% increase (5.0%)	1,373,395

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB**

For the year ended June 30, 2020, the SCCOE recognized OPEB expense of (\$1,133,253). At June 30, 2020, the SCCOE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to measurement date	\$ 810,295	\$ -
Differences between expected and actual experience	1,528,173	-
Net difference between projected and actual earnings on OPEB plan investments	<u>20,749</u>	<u>45,662</u>
Total	<u>\$ 2,359,217</u>	<u>\$ 45,662</u>

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2020	\$ 124,696
2021	124,696
2022	124,697
2023	139,914
2024	134,729
Thereafter	<u>854,528</u>
Total	<u>\$ 1,503,260</u>

**Medicare Premium Payment (MPP) Program****Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly SCCOE benefit payments. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

**Net OPEB Liability and OPEB Expense**

At June 30, 2020, the SCCOE reported a liability of \$124,556 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The SCCOE's proportion of the net OPEB liability was based on a projection of the SCCOE's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts and county offices of education, actuarially determined. The SCCOE's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively, was 0.0334 percent, and 0.0316 percent, resulting in a net increase in the proportionate share of 0.0018 percent.

For the year ended June 30, 2020, the SCCOE recognized OPEB expense of \$124,556.

**Actuarial Methods and Assumptions**

The June 30, 2019 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total OPEB liability to June 30, 2019, using the assumptions listed in the following table:

Measurement Date	June 30, 2019	June 30, 2018
Valuation Date	June 30, 2018	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.50%	3.87%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2018, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP 2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 380 or an average of 0.23 percent of the potentially eligible population (165,422).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2019, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2019, is 3.50 percent. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.50 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37 percent from 3.87 percent as of June 30, 2018.

**Sensitivity of the SCCOE’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the SCCOE’s proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Liability</u>
1% decrease (2.50%)	\$ 135,919
Current discount rate (3.50%)	124,556
1% increase (4.50%)	114,108

**Sensitivity of the SCCOE’s Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates**

The following presents the SCCOE’s proportionate share of the net OPEB liability calculated using the Medicare costs trend rates, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 116,746
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	124,556
1% increase (4.7% Part A and 5.1% Part B)	140,156

**Note 11 - Fund Balance**

Fund balances are composed of the following elements:

	County School Service Fund	Special Education Pass-through Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 2,800	\$ -	\$ 400	\$ 3,200
Stores inventories	-	-	-	-
Prepaid expenditures	26,385	-	-	26,385
Total nonspendable	29,185	-	400	29,585
<b>Restricted</b>				
Legally restricted programs	2,150,620	567,551	31,922	2,750,093
Total restricted	2,150,620	567,551	31,922	2,750,093
<b>Committed</b>				
Debt service	1,200,000	-	-	1,200,000
Total Committed	1,200,000	-	-	1,200,000
<b>Assigned</b>				
MAA Program	338,576	-	-	338,576
Small District Program	1,836	-	-	1,836
SMAA Administration	2,092,235	-	-	2,092,235
Teacher Credentialing Program	75,000	-	-	75,000
Mandated Cost Program	2,065,728	-	-	2,065,728
Safety Program	89,413	-	-	89,413
Education & Administrative Operations	15,293,183	-	-	15,293,183
Special Projects	200,000	-	-	200,000
Deferred Maintenance	2,454,587	-	-	2,454,587
Differentiated Assistance	799,595	-	-	799,595
Alternative Education	2,315,113	-	-	2,315,113
Child Development Program	-	-	66,325	66,325
Educational Program	9,701	-	-	9,701
Total assigned	25,734,967	-	66,325	25,801,292
<b>Unassigned</b>				
Reserve for economic uncertainties	2,622,188	-	-	2,622,188
Remaining unassigned	2,757,936	-	(990,496)	1,767,440
Total unassigned	5,380,124	-	(990,496)	4,389,628
Total	\$ 34,494,896	\$ 567,551	\$ (891,849)	\$ 34,170,598

Charter school non-major fund has a deficit fund balance of \$(349,013) and the county school facilities non-major fund has a deficit fund balance of \$(609,161). These ending fund balance deficits will be funded in the future period.

**Note 12 - Risk Management**

**Property and Liability**

The SCCOE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2020, the SCCOE was a member in and procured coverage through the Southern Peninsula Region Property and Liability Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

**Workers' Compensation**

For fiscal year 2019-2020, the SCCOE was a member in and procured coverage through the Santa Cruz-San Benito County Schools Insurance Group, a workers' compensation insurance purchasing pool. The intent of the Santa Cruz-San Benito County Schools Insurance Group is to achieve the benefit of a reduced premium for the SCCOE by virtue of its grouping and representation with other participants in the Santa Cruz-San Benito County Schools Insurance Group. The workers' compensation experience of the participating SCCOEs is calculated as one experience and a common premium rate is applied to all SCCOEs in the Santa Cruz-San Benito County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the Santa Cruz-San Benito County Schools Insurance Group.

**Note 13 - Employee Retirement Systems**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2020 the SCCOE reported net pension liabilities, deferred outflows of resources, deferred, inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 17,076,252	\$ 5,143,909	\$ 3,652,107	\$ 1,474,344
CalPERS	24,098,441	4,760,002	223,517	4,185,828
Total	<u>\$ 41,174,693</u>	<u>\$ 9,903,911</u>	<u>\$ 3,875,624</u>	<u>\$ 5,660,172</u>

The details of each plan are as follows:

### **California State Teachers' Retirement System (CalSTRS)**

#### **Plan Description**

The SCCOE contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

#### **Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and non-employer contributing entity to the STRP.

The SCCOE contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.



The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	On or before	On or after
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

### Contributions

Required member, SCCOE and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the SCCOE's total contributions were \$1,515,024.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the SCCOE reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the SCCOE. The amount recognized by the SCCOE as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the SCCOE were as follows:

Total net pension liability, including State share:

SCCOE's proportionate share of net pension liability	\$ 17,076,252
State's proportionate share of the net pension liability associated with the SCCOE	<u>9,316,235</u>
Total	<u><u>\$ 26,392,487</u></u>

The net pension liability was measured as of June 30, 2019. The SCCOE's proportion of the net pension liability was based on a projection of the SCCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, county offices of education and the State, actuarially determined. The SCCOE's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.0189 percent and 0.0176 percent, resulting in a net increase in the proportionate share of 0.0013 percent of the collective net pension liability.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2020

For the year ended June 30, 2020, the SCCOE recognized pension expense of \$1,474,344. In addition, SCCOE recognized pension expense and revenue of \$1,387,388 for support provided by the State. At June 30, 2020, the SCCOE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Pension contributions subsequent to measurement date	\$ 1,515,024	\$ -
Change in proportion and differences between contributions made and SCCOE's proportionate share of contributions	1,426,004	2,513,137
Difference between projected and actual earnings on pension plan investments	-	657,782
Differences between expected and actual experience in the measurement of the total pension liability	43,108	481,188
Changes in assumptions	2,159,773	-
Total	\$ 5,143,909	\$ 3,652,107

The deferred outflows of resources related to pensions resulting from SCCOE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ (66,349)
2022	(522,201)
2023	(108,418)
2024	39,186
Total	\$ (657,782)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ (149,409)
2022	(499,318)
2023	236,143
2024	736,058
2025	200,687
Thereafter	110,399
Total	<u>\$ 634,560</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.80%
Fixed income	12%	1.30%
Real estate	13%	3.60%
Private equity	13%	6.30%
Absolute Return/Risk Mitigating Strategies	9%	1.80%
Inflation sensitive	4%	-3.30%
Cash/liquidity	2%	-0.40%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the SCCOE's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 25,427,952
Current discount rate (7.10%)	17,076,252
1% increase (8.10%)	10,151,101

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at <https://www.calpers.ca.gov/page/forms-publications>.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	19.721%	19.721%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The SCCOE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the total SCCOE contributions were \$1,405,955.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2020, the SCCOE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$24,098,441. The net pension liability was measured as of June 30, 2019. The SCCOE's proportion of the net pension liability was based on a projection of the SCCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and county offices of education, actuarially determined. The SCCOE's proportionate share of the proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.0827 percent and 0.0815 percent, respectively, resulting in a net increase in the proportionate share of 0.0012 percent.

For the year ended June 30, 2020, the SCCOE recognized pension expense of \$4,185,828. At June 30, 2020, the SCCOE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,405,955	\$ -
Change in proportion and differences between contributions made and COE's proportionate share of contributions	456,372	-
Difference between projected and actual earnings on pension plan investments	-	223,517
Differences between expected and actual experience in the measurement of the total pension liability	1,750,514	-
Changes of assumptions	1,147,161	-
	<u>\$ 4,760,002</u>	<u>\$ 223,517</u>
Total	<u>\$ 4,760,002</u>	<u>\$ 223,517</u>

The deferred outflows of resources related to pensions resulting from SCCOE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

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The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 220,637
2022	(440,713)
2023	(66,785)
2024	63,344
Total	\$ (223,517)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 2,110,473
2022	881,680
2023	328,993
2024	32,901
Total	\$ 3,354,047

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%



**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the SCCOE's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 34,736,318
Current discount rate (7.15%)	24,098,441
1% increase (8.15%)	15,273,587

**Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. Contributions made by the SCCOE and an employee vest immediately. The SCCOE contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 4 percent of his or her gross earnings to the pension plan.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the SCCOE. These payments consist of State County School Service Fund contributions to CalSTRS in the amount of \$973,098 (10.328 percent of the second previous annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the budgeted amounts reported in the County School Service Fund - Budgetary Comparison Schedule.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019-2020 contribution on-behalf of school employers of \$1.1 billion for CalSTRS. A proportionate share of these contributions has been recorded in these financial statements.

**Note 14 - Commitments and Contingencies****Grants**

The SCCOE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the SCCOE at June 30, 2020.

**Litigation**

The SCCOE is not currently a party to any legal proceedings.

**Note 15 - Participation in Public Entity Risk Pools and Joint Power Authorities**

The SCCOE is a member of the Self-Insured Schools of California III (SISC); Santa Cruz County Schools' Health Insurance Group (SCCSHIG), Santa Cruz-San Benito County Schools' Insurance Group (SIG), and the Southern Peninsula Region Property and Liability Insurance Group (SPRIG) public entity risk pools and the North Santa Cruz County Special Education Local Plan Area joint powers authorities (JPA's). The SCCOE pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the SCCOE, the pools, and the JPA's are such that they are not component units of the SCCOE for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the SCCOE are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2020, the SCCOE made payments of \$8,205,291, \$606,737, \$434,656 and \$169,852 to SISC, Santa Cruz County Schools Health Insurance Group, Santa Cruz-San Benito County Schools' Insurance Group, and Southern Peninsula Region Property and Liability Insurance Group (including re-insurance through SAFER), respectively for health, workers' compensation, and property liability coverage.

**Note 16 - Restatement**

SCCOE’s investment in California Employers’ Retiree Benefit Trust (CERBT) was incorrectly included in SCCOE’s financial statements as a trust fund in the prior year. As a result, the beginning net position of the fiduciary fund financial statements was decreased by \$9,060,657.

The following table summarizes the restatements to the beginning net position as of July 1, 2019.

Fiduciary Trust Fund	
Net Position - Beginning	\$ 9,060,657
Removed Trust Fund	<u>(9,060,657)</u>
Net Position - Beginning as Restated	<u><u>\$ -</u></u>

The effect of the restatement to remove the trust fund was that the prior year change in fiduciary net position was overstated by \$661,957.

**Note 17 - Charter School**

On April 18, 2019, SCCOE approved the petition of Santa Cruz County Charter High School to beginning operation on July 1, 2019. The charter school was previously chartered through Live Oak Live Oak School District. The residual asset of \$55,837 was transferred to SCCOE during the fiscal year 2019-20.

On June 16, 2020, SCCOE approved Resolution 20-06 to close Cypress Charter High School at the end of 19-20 school year. The charter school did not have any residual balance as of June 30, 2020. SCCOE is pursuing a closing audit.

**Note 18 - Subsequent Event**

Subsequent to year-end, the SCCOE has been negatively impacted by the effects of the world-wide coronavirus pandemic. The SCCOE is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the SCCOE’s financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.



Required Supplementary Information  
June 30, 2020

# Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools  
Budgetary Comparison Schedule – County School Service Fund  
Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local Control Funding Formula	\$ 27,942,549	\$ 28,827,106	\$ 30,431,765	\$ 1,604,659
Federal sources	6,890,894	6,368,309	4,156,120	(2,212,189)
Other State sources	7,432,885	5,712,305	4,771,487	(940,818)
Other local sources	9,100,508	9,641,406	12,308,001	2,666,595
Total Revenues <sup>1</sup>	<u>51,366,836</u>	<u>50,549,126</u>	<u>51,667,373</u>	<u>1,118,247</u>
<b>Expenditures</b>				
<b>Current</b>				
Certificated salaries	10,305,237	10,345,444	10,167,778	177,666
Classified salaries	12,359,579	12,002,768	11,887,423	115,345
Employee benefits	13,189,363	13,147,673	12,804,318	343,355
Books and supplies	1,862,880	2,561,509	1,003,795	1,557,714
Services and operating expenditures	9,632,906	9,573,218	7,354,126	2,219,092
Other outgo	5,012,065	4,211,816	4,141,051	70,765
Capital outlay	1,671,300	156,876	130,761	26,115
Debt service - principal	346,109	357,185	357,185	-
Debt service - interest	278,647	267,581	267,570	11
Total Expenditures <sup>1</sup>	<u>54,658,086</u>	<u>52,624,070</u>	<u>48,114,007</u>	<u>4,510,063</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,291,250)</u>	<u>(2,074,944)</u>	<u>3,553,366</u>	<u>5,628,310</u>
<b>Other Financing Sources (Uses)</b>				
Other sources	28,161,718	30,976,196	-	(30,976,196)
Transfers out	(31,000)	(591,732)	(34,666)	557,066
Other uses	<u>(24,870,468)</u>	<u>(28,901,252)</u>	<u>-</u>	<u>28,901,252</u>
Net Financing Sources (Uses)	<u>3,260,250</u>	<u>1,483,212</u>	<u>(34,666)</u>	<u>(1,517,878)</u>
Net Change in Fund Balances	(31,000)	(591,732)	3,518,700	4,110,432
Fund Balance - Beginning	<u>30,976,196</u>	<u>30,976,196</u>	<u>30,976,196</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 30,945,196</u>	<u>\$ 30,384,464</u>	<u>\$ 34,494,896</u>	<u>\$ 4,110,432</u>

<sup>1</sup> Due to the consolidation of Fund 11, Adult Education Fund; Fund 14, Deferred Maintenance Fund; and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the County School Service Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, and in the original and final County School Service Fund budgets.

Santa Cruz County Superintendent of Schools  
 Budgetary Comparison Schedule – Special Education Pass-Through Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 3,746,806	\$ 7,605,471	\$ 3,745,930	\$ (3,859,541)
Other State sources	3,271,647	3,684,385	4,225,486	541,101
Other local sources	25,700	22,600	22,397	(203)
Total Revenues	<u>7,044,153</u>	<u>11,312,456</u>	<u>7,993,813</u>	<u>(3,318,643)</u>
Expenditures				
Current				
Other outgo	7,044,153	11,312,456	7,800,002	3,512,454
Total Expenditures	<u>7,044,153</u>	<u>11,312,456</u>	<u>7,800,002</u>	<u>3,512,454</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>193,811</u>	<u>193,811</u>
Other Financing Sources (Uses)				
Transfers out	(7,044,153)	(11,037,555)	-	11,037,555
Net Financing Sources (Uses)	<u>(7,044,153)</u>	<u>(11,037,555)</u>	<u>-</u>	<u>11,037,555</u>
Net Change in Fund Balances	(7,044,153)	(11,037,555)	193,811	11,231,366
Fund Balance - Beginning	373,740	373,740	373,740	-
Fund Balance - Ending	<u>\$ (6,670,413)</u>	<u>\$ (10,663,815)</u>	<u>\$ 567,551</u>	<u>\$ 11,231,366</u>

Santa Cruz County Superintendent of Schools  
Schedule of Changes in the SCCOE's Net OPEB Liability and Related Ratios  
Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 403,067	\$ 392,279	\$ 381,780
Interest	550,815	521,490	491,261
Benefit payments	(664,019)	(502,479)	(457,838)
Expected Benefit Payments From Employer	(109,099)	-	-
Actual minus expected benefit payments	218,198	56,926	-
Experience (Gains)/Losses	1,392,603	-	-
	<u>1,791,565</u>	<u>468,216</u>	<u>415,203</u>
Net change in total OPEB liability			
Total OPEB liability - beginning	7,944,716	7,476,500	7,061,297
	<u>\$ 9,736,281</u>	<u>\$ 7,944,716</u>	<u>\$ 7,476,500</u>
Total OPEB liability - ending (a)			
Plan Fiduciary Net Position			
Contributions - employer	\$ 873,118	\$ 595,554	\$ 557,838
Net investment income	563,364	601,237	740,457
Benefit payments	(773,118)	(502,479)	(457,838)
Actual minus expected benefit payments	-	56,926	-
Other	-	7,330	-
	<u>663,364</u>	<u>758,568</u>	<u>840,457</u>
Net change in plan fiduciary net position			
Plan fiduciary net position - beginning	8,396,296	7,637,728	6,797,271
	<u>\$ 9,059,660</u>	<u>\$ 8,396,296</u>	<u>\$ 7,637,728</u>
Plan fiduciary net position - ending (b)			
SCCOE's net OPEB (asset)/liability- ending (a) - (b)	\$ 676,621	\$ (451,580)	\$ (161,228)
Plan fiduciary net position as a percentage of the total OPEB (asset)/liability	<u>93.05%</u>	<u>105.68%</u>	<u>102.16%</u>
Covered payroll	\$ 24,651,308	\$ 23,755,780	\$ 21,998,183
SCCOE's net OPEB (asset)/liability as a percentage of covered payroll	<u>2.74%</u>	<u>-1.90%</u>	<u>-0.73%</u>

*Note:* In the future, as data becomes available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of SCCOE's Contributions for OPEB  
Year Ended June 30, 2020

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	2020	2019	2018
Actuarially determined contribution	Not Available	Not Available	Not Available
Contributions in relation to the actuarially determined contribution	\$ 873,118	\$ 595,554	\$ 557,838
Covered payroll	\$ 24,651,308	\$ 23,755,780	\$ 21,998,183
Contribution as a percentage of covered payroll	-3.542%	-2.507%	-2.536%

*Note* : In the future, as data become available, ten years of information will be presented.



Santa Cruz County Superintendent of Schools  
Schedule of the SCCOE's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2020

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Year ended June 30, Measurement Date	<u>2020</u> <u>June 30, 2019</u>	<u>2019</u> <u>June 30, 2018</u>	<u>2018</u> <u>June 30, 2017</u>
Proportion of the net OPEB liability	0.3334%	0.3316%	0.0000%
Proportionate share of the net OPEB liability	\$ 124,556	\$ 120,821	\$ 127,684
Covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Proportionate share of the net OPEB liability as of its covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	-0.81%	0.40%	0.01%
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup>As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

*Note:* In the future, as data becomes available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of the SCCOE's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2020

Measurement Date as of	<u>2020</u> <u>6/30/2019</u>	<u>2019</u> <u>6/30/2018</u>	<u>2018</u> <u>6/30/2017</u>	<u>2017</u> <u>6/30/2016</u>	<u>2016</u> <u>6/30/2015</u>	<u>2015</u> <u>6/30/2014</u>
CalSTRS						
SCCOE's proportion of the net pension liability	0.0189%	0.0176%	0.0168%	0.0169%	0.0213%	0.0258%
SCCOE's proportionate share of the net pension liability	\$ 17,076,252	\$ 16,162,680	\$ 15,503,260	\$ 13,672,572	\$ 14,359,551	\$ 15,084,573
State's proportionate share of the net pension liability associated with the SCCOE	9,316,235	9,253,890	9,171,598	7,783,552	7,594,619	9,108,717
Total	\$ 26,392,487	\$ 25,416,570	\$ 24,674,858	\$ 21,456,124	\$ 21,954,170	\$ 24,193,290
SCCOE's covered payroll	\$ 10,404,233	\$ 9,561,423	\$ 8,958,810	\$ 8,863,027	\$ 9,494,981	\$ 11,592,138
SCCOE's proportionate share of the net pension liability as a percentage of its covered payroll	164.13%	169.04%	173.05%	154.27%	151.23%	130.13%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%
CalPERS						
SCCOE's proportion of the net pension liability	0.0827%	0.0815%	0.0799%	0.0760%	0.0800%	0.0878%
SCCOE's proportionate share of the net pension liability	\$ 24,098,441	\$ 21,727,160	\$ 19,067,848	\$ 15,009,890	\$ 11,794,608	\$ 9,970,401
SCCOE's covered payroll	\$ 11,072,255	\$ 10,403,962	\$ 9,686,705	\$ 8,789,784	\$ 8,800,872	\$ 9,190,072
SCCOE's proportionate share of the net pension liability as a percentage of its covered payroll	218%	209%	197%	170.77%	134.02%	108.49%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%

Note: In the future, as data become available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of the SCCOE Contributions  
Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
<b>CalSTRS</b>						
Contractually required contribution	\$ 1,515,024	\$ 1,690,102	\$ 1,363,011	\$ 1,112,652	\$ 918,955	\$ 868,687
Contributions in relation to the contractually required contribution	<u>1,515,024</u>	<u>1,690,102</u>	<u>1,363,011</u>	<u>1,112,652</u>	<u>918,955</u>	<u>868,687</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCCOE's covered payroll	<u>\$ 8,859,790</u>	<u>\$ 10,404,233</u>	<u>\$ 9,561,423</u>	<u>\$ 8,958,810</u>	<u>\$ 8,863,027</u>	<u>\$ 9,494,981</u>
Contributions as a percentage of covered payroll	<u>17.10%</u>	<u>16.24%</u>	<u>14.26%</u>	<u>12.42%</u>	<u>10.37%</u>	<u>9.15%</u>
<b>CalPERS</b>						
Contractually required contribution	\$ 1,405,955	\$ 1,996,656	\$ 1,611,481	\$ 1,343,511	\$ 1,037,482	\$ 1,036,441
Contributions in relation to the contractually required contribution	<u>1,405,955</u>	<u>1,996,656</u>	<u>1,611,481</u>	<u>1,343,511</u>	<u>1,037,482</u>	<u>1,036,441</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCCOE's covered payroll	<u>\$ 7,129,230</u>	<u>\$ 11,072,255</u>	<u>\$ 10,403,962</u>	<u>\$ 9,686,705</u>	<u>\$ 8,789,783</u>	<u>\$ 8,800,872</u>
Contributions as a percentage of covered payroll	<u>19.72%</u>	<u>18.03%</u>	<u>15.49%</u>	<u>13.87%</u>	<u>11.80%</u>	<u>11.78%</u>

Note : In the future, as data become available, ten years of information will be presented.

**Note 1 - Purpose of Schedules****Budgetary Comparison Schedules**

The SCCOE employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California Education Code. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

**Schedule of Changes in the SCCOE's Net OPEB Liability and Related Ratios**

This schedule presents information on the SCCOE's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms*** – There were no changes in benefit terms since the previous valuation.

***Changes of Assumptions*** – There were no changes in assumptions since the previous valuation.

**Schedule of SCCOE's Contributions for OPEB**

This schedule presents information on the SCCOE's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Schedule of the SCCOE's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on the SCCOE's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms*** – There were no changes in benefit terms since the previous valuation.

***Changes of Assumptions*** – The plan rate of investment return assumption was changed from 3.87 percent to 3.5 percent since the previous valuation.

**Schedule of the SCCOE's Proportionate Share of the Net Pension Liability**

This schedule presents information on the SCCOE's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the SCCOE. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms*** – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

***Changes of Assumptions*** – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

**Schedule of SCCOE Contributions**

This schedule presents information on the SCCOE's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.



Supplementary Information  
June 30, 2020

# Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools  
Schedule of Expenditures of Federal Awards  
June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Pass-Through to Subrecipients
U.S. Department of Education				
Passed through California Department of Education (CDE):				
Elementary and Secondary Education Act				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14981	\$ 176,735	\$ -
Title I, Basic School Support, Statewide System	84.010	14416	-	-
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	213,261	-
Title I, Comprehensive Support for Improvement for LEA's	84.010	14416	174,545	-
Title I, Comprehensive Support for Improvement for COE's	84.010	15439	57,173	-
Subtotal Title I			<u>621,714</u>	-
Title II, Supporting Effective Instruction State Grants	84.367	14341	23,253	-
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15391	314,091	-
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	166,176	-
Alcohol Abuse Reduction	84.184A	<sup>[1]</sup>	-	-
Special Education IDEA Cluster				
IDEA Basic Local Assistance Entitlement	84.027	13379	7,079,430	6,552,406
IDEA Mental Health Services, Part B	84.027A	15197	220,588	187,813
Subtotal			<u>7,300,018</u>	<u>6,740,219</u>
IDEA Preschool Grants, Part B, Section 619	84.173	13431	147,093	100,217
IDEA Preschool Staff Development	84.173A	13431	1,843	909
Subtotal			<u>148,936</u>	<u>101,126</u>
Subtotal Special Education Cluster			<u>7,448,954</u>	<u>6,841,345</u>
Special Education - Grants for Infants and Families				
IDEA Early Intervention Grants	84.181	23761	102,304	-
Passed through California Department of Rehabilitation (DOR):				
State Vocational Rehabilitation Services Program	84.126A	<sup>[1]</sup>	191,206	-
Total U.S Department of Education			<u>8,867,698</u>	<u>6,841,345</u>
U.S. Department of Health and Human Services				
Passed through California Department of Education:				
CCDF Cluster				
Child Care and Development Block Grant - Local Planning Council	93.575	13946	18,569	
Child Care and Development Block Grant - Federal Resource and Referral	93.575	14130	34,767	-
Child Care and Development Block Grant - - CHST	93.575	14140	6,340	-
Child Care and Development Block Grant - CCIP and CCRP	93.575	13942	107,274	-
Child Care and Development Block Grant - CRET	93.575	14990	88,700	-
Child Care and Development Block Grant - CSPP	93.575	14869	27,172	-
Child Care and Development Block Grant - Local Planning Council	93.575	000326	53,117	-
Subtotal CCDF Cluster			<u>335,939</u>	-
Passed through Stanislaus County of Education:				
Migrant Head Start	93.600	<sup>[1]</sup>	1,619,557	-
Total U.S Department of Health and Human Services			<u>1,955,496</u>	-

Santa Cruz County Superintendent of Schools  
Schedule of Expenditures of Federal Awards  
June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. Department of Labor				
Passed through California Department of Education (CDE):				
WIOA Cluster				
WIA/WIOA Youth Activities	17.259	10055	<u>683,096</u>	<u>-</u>
Total WIOA Cluster			<u>683,096</u>	<u>-</u>
Total U.S Department of Labor			<u>683,096</u>	<u>-</u>
U.S. Department of Agriculture				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster				
National School Lunch	10.553	13390	<u>20,997</u>	<u>-</u>
Subtotal Child Nutrition Cluster			<u>20,997</u>	<u>-</u>
Total U.S Department of Agriculture			<u>20,997</u>	<u>-</u>
Total Federal Programs			<u>\$ 11,527,287</u>	<u>\$ 6,841,345</u>

<sup>[1]</sup> Pass-Through Entity Identifying Number not available



**Organization**

Santa Cruz County is comprised of ten school districts and the County Office of Education. Within Santa Cruz County, there are thirty-five elementary schools, thirteen middle schools, nine special education sites (run by the SCCOE, PVUSD has special education classrooms at all three school levels), eight high schools, two continuation schools, one community school, nineteen Alternative Education sites and fourteen charter schools. The SCCOE is also the administrative agency for one Special Education Local Plan Area (SELPA) and coordinates the Career Technical Education Partnership for four school districts.

**Governing Board**

MEMBER	OFFICE	TERM EXPIRES
Sue Roth	President	2022
Rose Filicetti	Vice President	2020
Abel Sanchez	Member	2022
Bruce Van Allen	Member	2022
Sandra Nichols	Member	2020
Jane Royer-Barr	Member	2020
Dana Sales	Member	2020

**Administration**

NAME	TITLE
Faris Sabbah	Superintendent
Rebecca Olker	Interim Deputy Superintendent, Business Services (CBO)
Debi Bodenheimer	Associate Superintendent, Educational Services
Bryan Wall	Deputy Superintendent of Schools

Santa Cruz County Superintendent of Schools

Schedule of Average Daily Attendance

Year Ended June 30, 2020

	Final Report	
	Second Period Report	Annual Report
Elementary		
Probation referred, on probation or parole, expelled	21.46	24.93
Total Elementary	21.46	24.93
Secondary		
Juvenile halls, homes, and camps	61.87	71.88
Probation referred, on probation or parole, expelled	803.51	908.44
Total Secondary	865.38	980.32
Total ADA	886.84	1,005.25
Charter School		
Regular ADA (Non classroom based)		
Ninth through twelfth	115.43	115.43
Total Regular ADA (Non-classroom based)	115.43	115.43
Charter School		
Regular ADA (Classroom based)		
Ninth through twelfth	93.30	93.30
Total Regular ADA (Classroom based)	93.30	93.30

Santa Cruz County Superintendent of Schools

Schedule of Instructional Time

Year Ended June 30, 2020

Santa Cruz County Superintendent of Schools does not participate in the longer instructional day incentive. It receives funding for the longer year funding only through the special education funding model. SCCOE is in compliance with the longer year requirement as it has 180 instructional days.

**Charter School**

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9-12	64,800				
Grade 9		67,280	175	N/A	Complied
Grade 10		67,289	175	N/A	Complied
Grade 11		67,280	175	N/A	Complied
Grade 12		67,280	175	N/A	Complied

Santa Cruz County Superintendent of Schools  
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
 Year Ended June 30, 2020

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	County School Service Fund
Fund Balance	
Balance, June 30, 2020, Unaudited Actuals	\$ 31,935,075
Increase (decrease) in	
Accounts receivable	2,276,506
Accounts payable	(917,061)
Due to other funds	1,200,376
	1,200,376
Balance, June 30, 2020, Audited Financial Statements	\$ 34,494,896
	Aggregate Remaining Funds
Fund Balance	
Balance, June 30, 2020, Unaudited Actuals	\$ 308,527
Decrease in	
Due from other funds	(1,200,376)
	(1,200,376)
Balance, June 30, 2020, Audited Financial Statements	\$ (891,849)

Santa Cruz County Superintendent of Schools

Schedule of Financial Trends and Analysis

Year Ended June 30, 2020

	(Budget) 2021 <sup>1</sup>	2020	2019	2018
County School Service Fund <sup>3</sup>				
Revenues	\$ 48,340,866	\$ 51,667,373	\$ 59,470,512	\$ 53,977,681
Other sources and transfers in	-	-	-	-
Total Revenues and Other Sources	<u>48,340,866</u>	<u>51,667,373</u>	<u>59,470,512</u>	<u>53,977,681</u>
Expenditures	51,917,568	48,114,007	56,713,220	50,121,757
Other uses and transfers out	466,051	34,666	30,019	62,955
Total Expenditures and Other Uses	<u>52,383,619</u>	<u>48,148,673</u>	<u>56,743,239</u>	<u>50,184,712</u>
Increase (Decrease) in Fund Balance	<u>\$ (4,042,753)</u>	<u>\$ 3,518,700</u>	<u>\$ 2,727,273</u>	<u>\$ 3,792,969</u>
Ending Fund Balance	<u>\$ 30,452,143</u>	<u>\$ 34,494,896</u>	<u>\$ 30,976,196</u>	<u>\$ 28,248,924</u>
Available Reserves <sup>2</sup>	<u>\$ 2,647,188</u>	<u>\$ 5,380,124</u>	<u>\$ 2,570,903</u>	<u>\$ 2,520,010</u>
Available Reserves as a Percentage of Total Outgo <sup>4</sup>	<u>5.10%</u>	<u>11.17%</u>	<u>4.53%</u>	<u>5.03%</u>
Long-Term Obligations	<u>\$ 8,259,474</u>	<u>\$ 8,628,090</u>	<u>\$ 8,821,682</u>	<u>\$ 9,129,143</u>
Average Daily Attendance at Annual	<u>1,054</u>	<u>1,005</u>	<u>861</u>	<u>834</u>

The County School Service Fund balance has increased by \$6,245,972 over the past two years. The fiscal year 2020-2021 budget projects a further decrease of \$4,042,753 (12 percent). For a county office of education this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The SCCOE has incurred operating surpluses in the past three years and anticipates incurring an operating deficit during the 2020-2021 fiscal year. Total long-term liabilities have decreased by \$501,053 over the past two years.

Average daily attendance has increased by 171 over the past two years. Additional increase of 49 ADA is anticipated during fiscal year 2020-2021.

<sup>1</sup> Budget 2021 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Service Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

<sup>3</sup> County School Service Fund amounts include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Other Than Capital Outlay as required by GASB Statement No. 54.

<sup>4</sup> On behalf payments of \$1,299,505 and \$2,212,025 relating to Senate Bill 90 are included in the calculation of available reserves for the fiscal years ending June 30, 2020 and June 30, 2019.

Santa Cruz County Superintendent of Schools

Schedule of Charter Schools

Year Ended June 30, 2020

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<u>Name of Charter School</u>	<u>Charter School Number</u>	<u>Included in Audit Report</u>
Pacific Collegiate School	0210	No
Santa Cruz County Career Advancement Charter School	1904	Yes
Santa Cruz County Cypress Charter High School	100305	Yes

Santa Cruz County Superintendent of Schools  
Combining Balance Sheet – Non-Major Governmental Funds  
June 30, 2020

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 616,398	\$ 442,632	\$ 7,134	\$ 506,240	\$ 1,572,404
Receivables	304,511	211,426	-	-	515,937
Due from other funds	105,848	335	-	-	106,183
<b>Total assets</b>	<b>\$ 1,026,757</b>	<b>\$ 654,393</b>	<b>\$ 7,134</b>	<b>\$ 506,240</b>	<b>\$ 2,194,524</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 669,460	\$ 147,418	\$ -	\$ 1,115,401	\$ 1,932,279
Due to other funds	706,310	123,522	7,134	-	836,966
Unearned revenue	-	317,128	-	-	317,128
<b>Total liabilities</b>	<b>1,375,770</b>	<b>588,068</b>	<b>7,134</b>	<b>1,115,401</b>	<b>3,086,373</b>
<b>Fund Balances:</b>					
Nonspendable	400	-	-	-	400
Restricted	31,922	-	-	-	31,922
Assigned	-	66,325	-	-	66,325
Unassigned	(381,335)	-	-	(609,161)	(990,496)
<b>Total Fund Balance</b>	<b>(349,013)</b>	<b>66,325</b>	<b>-</b>	<b>(609,161)</b>	<b>(891,849)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,026,757</b>	<b>\$ 654,393</b>	<b>\$ 7,134</b>	<b>\$ 506,240</b>	<b>\$ 2,194,524</b>

Santa Cruz County Superintendent of Schools

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds

June 30, 2020

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
<b>Revenues</b>					
Local Control Funding Formula	\$ 2,159,966	\$ -	\$ -	\$ -	\$ 2,159,966
Federal sources	401	335,462	20,997	-	356,860
Other State sources	374,488	654,947	1,730	-	1,031,165
Other local sources	439,656	303,681	96	-	743,433
<b>Total Revenues</b>	<b>2,974,511</b>	<b>1,294,090</b>	<b>22,823</b>	<b>-</b>	<b>4,291,424</b>
<b>Expenditures</b>					
<b>Current</b>					
Instruction	2,518,115	-	-	1,105,500	3,623,615
Instruction-related activities					
School site administration	783,338	-	-	-	783,338
Pupil services					
Food services	-	-	54,689	-	54,689
General administration					
All other general administration	22,992	105,191	2,800	-	130,983
Community services	-	1,161,050	-	-	1,161,050
<b>Total expenditures</b>	<b>3,594,639</b>	<b>1,266,241</b>	<b>57,489</b>	<b>1,105,500</b>	<b>6,023,869</b>
<b>Excess (Deficiency) of</b>					
<b>Revenues Over Expenditures</b>	<b>(620,128)</b>	<b>27,849</b>	<b>(34,666)</b>	<b>(1,105,500)</b>	<b>(1,732,445)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	34,666	-	34,666
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>34,666</b>	<b>-</b>	<b>34,666</b>
<b>Net Change in Fund Balances</b>	<b>(620,128)</b>	<b>27,849</b>	<b>-</b>	<b>(1,105,500)</b>	<b>(1,697,779)</b>
Fund Balance - Beginning	271,115	38,476	-	496,339	805,930
<b>Fund Balance - Ending</b>	<b>\$ (349,013)</b>	<b>\$ 66,325</b>	<b>\$ -</b>	<b>\$ (609,161)</b>	<b>\$ (891,849)</b>

See Notes to Supplementary Information



**Note 1 - Purpose of Schedules**

**Schedule of Expenditures of Federal Awards (SEFA)**

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the SCCOE under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the SCCOE, it is not intended to and does not present the financial position, and changes in net position of SCCOE.

**Summary of Significant Policies**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are reported on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate**

The SCCOE has not elected to use the ten percent de minimis cost rate.

**SEFA Reconciliation**

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amount relates to passed-through special education program funds (IDEA) that have been recorded in the current period as expenditures and distributed to member districts (subrecipients) but were recorded as revenue in the prior period.

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance		\$ 8,258,910
Special education cluster - difference between cash and accrual basis for amounts paid to subrecipients	84.027/84.173	\$ 3,268,377
Total Schedule of Expenditures of Federal Awards		\$ 11,527,287

**Local Education Agency Organization Structure**

This schedule provides information about the SCCOE's boundaries and schools operated, members of the governing board, and members of the administration.

### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the SCCOE. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local educational agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

### **Schedule of Instructional Time**

Education Code Section 46201.5 extended the longer instructional day incentive funding for County Offices of Education that provide special day classes. The SCCOE does not participate in the incentive funding for increasing instructional time as provided by the Incentives for Longer Instruction Day. The SCCOE does participate in the longer year funding for special education classes.

Due to school closures caused by COVID-19, the SCCOE filed the COVID-19 School Closure Certification certifying that schools were closed for 54 days due to the pandemic. As a result, SCCOE received a credit for these 54 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

### **Schedule of Financial Trends and Analysis**

This schedule discloses the SCCOE's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the SCCOE's ability to continue as a going concern for a reasonable period of time.

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the Santa Cruz County Office of Education and displays information for each Charter School on whether or not the Charter School is included in the SCCOE's audit.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.



Independent Auditor's Reports  
June 30, 2020

# Santa Cruz County Superintendent of Schools



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Cruz County Superintendent of Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Santa Cruz County Superintendent of Schools’ basic financial statements and have issued our report thereon dated April 20, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Cruz County Superintendent of Schools’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz County Superintendent of Schools’ internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz County Superintendent of Schools’ internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of financial statement findings as item 2020-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Santa Cruz County Superintendent of Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Santa Cruz County Superintendent of Schools' Response to Findings**

Santa Cruz County Superintendent of Schools' response to findings identified in our audit is described in the accompanying schedule of financial statement findings. Santa Cruz County Superintendent of Schools responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Ramon, California

April 20, 2021



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

### **Report on Compliance for Each Major Federal Program**

We have audited Santa Cruz County Superintendent of Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Cruz County Superintendent of Schools' major federal programs for the year ended June 30, 2020. Santa Cruz County Superintendent of Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Santa Cruz County Superintendent of Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Cruz County Superintendent of Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Cruz County Superintendent of Schools' compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Santa Cruz County Superintendent of Schools' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## Report on Internal Control over Compliance

Management of Santa Cruz County Superintendent of Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Cruz County Superintendent of Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Santa Cruz County Superintendent of Schools' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-002 that we consider to be a significant deficiency.

Santa Cruz County Superintendent of Schools' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Santa Cruz County Superintendent of Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



San Ramon, California  
April 20, 2021



## Independent Auditor's Report on State Compliance

To the Board of Directors  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

### Report on State Compliance

We have audited Santa Cruz County Superintendent of Schools' (the SCCOE) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

### Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

### Auditor's Responsibility

Our responsibility is to express an opinion on the SCCOE's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the SCCOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the SCCOE's compliance.



## Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the SCCOE's compliance with laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	No see below
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Non Classroom-Based Instruction	Yes
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

The SCCOE's kindergarten students are retained using an Individualized Education Program based on the identified special needs; therefore, we did not perform procedures related to Kindergarten Continuance.

The SCCOE does not offer a Continuation Education Program; therefore, we did not perform procedures related to the Continuation Education Attendance Program.

The SCCOE is not required to meet the Instructional Time, Ratio of Administrative Employees to Teachers, and Classroom Teacher Salaries requirements; therefore we did not perform procedures related to Instructional Time, Ratio of Administrative Employees to Teachers and Classroom Teacher Salaries.

The SCCOE did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The SCCOE does not offer a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The SCCOE is not required to meet the K-3 Grade Span Adjustment and Transportation Maintenance of Effort requirements; therefore we did not perform procedures related to the K-3 Grade Span Adjustment and Transportation Maintenance of Effort.

The SCCOE does not offer an Apprenticeship Program; therefore we did not perform procedures related to the Apprenticeship Program.

The SCCOE does not offer a District of Choice Program; therefore we did not perform any procedures related to the District of Choice Program.

The SCCOE does not offer an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before School Education and Safety Program.

The SCCOE does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The SCCOE does not participate in the Charter School Facility Grant Program; therefore we did not perform any procedures related to the Charter School Facility Grant Program.

### **Unmodified Opinion**

In our opinion, Santa Cruz County Superintendent of Schools complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



San Ramon, California  
April 20, 2021

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

**Identification of major Federal programs:**

Name of Federal Program or Cluster	CFDA Number
Special Education Cluster	84.027; 84.027A; 84.173; 84.173A
Dollar threshold used to distinguish between type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:	Unmodified
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The following findings represents material weaknesses related to the financial statements that are required to be reported in accordance with Government Auditing Standards. The findings have been coded as follows:

Five Digit Code 30000	AB 3627 Finding Type Internal Control
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2020-001      Restatement and Material Audit Adjustments

**Criteria**

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should also include consideration for the proper presentation of fund types as defined by Governmental Accounting Standards Board (GASB) Codification Section 1300 *Fund Accounting*.

**Condition**

The prior year financial statements contained certain errors that were discovered during the current year. The prior year financial statements incorrectly included an agent multi-employer defined benefit other postemployment benefits plan as a trust fund. Accordingly, the beginning net position of the fiduciary fund financial statements has been restated to remove the trust fund. Additionally, entries were proposed and recorded by management to correct the due to/from and transfers in/out for certain aggregate remaining funds due to the fact that these transactions had not yet occurred as of fiscal year-end. Additionally, we were requested to draft the financial statements and accompanying notes to the financial statements.

**Effect**

Material audit adjustments were necessary to present the financial statements in accordance with Generally Accepted Accounting Principles.

**Cause**

The COE's internal control system designed to provide for the preparation and fair presentation of the financial statements was not operating at an optimal level. During the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, in a prior year, the OPEB plan was incorrectly identified as a single employer plan rather than an agent-multi employer plan. Additionally, audit adjustments are necessary in order to present the financial statements fairly, in all material respect.

**Recommendation**

We acknowledge that SCCOE corrected the errors and these corrections are reflected in the report. We recommend management improve controls over the financial statement preparation and reconciliation process to ensure transactions are properly recorded, and that all activities presented are correct.

Repeat Finding (Yes or No)

No.

**Corrective Action Plan**

The Santa Cruz County Office of Education will perform a more in depth analysis of the Conversion Entry to ensure compliance with GASB. With the Auditor's clarification that the OPEB CERBT Trust with CALPERS is an agent-multi-employer plan, it is unlikely that it will be mistakenly classified as a single employer Trust on future financial statements. See page 103.

The following finding represents a significant deficiency in internal control over compliance that is required to be reported by the Uniform Guidance. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

2020-002      Subrecipient Monitoring (50000)  
 Significant Deficiency in internal control over compliance

**Federal Program Affected:**

Program Name: Special Education Cluster

Agency Name: U.S. Department of Education

Passed Through Agency: California Department of Education

CFDA: 84.027, 84.027A, 84.173; 84.173A

**Criteria or Specific Requirements**

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires pass-through entities to evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate extent of subrecipient monitoring required.

**Condition**

Santa Cruz County Office of Education (SCCOE) completed aspects of subrecipient monitoring for its subrecipients; however, we noted (1) formal subrecipient monitoring policies had not been established and (2) no documentation evaluating each subrecipient’s risk of noncompliance with the program requirements.

**Questioned Costs**

None.

**Context/Sampling**

A nonstatistical sample of 2 of 12 subawards was selected for testing.

**Effect**

Noncompliance at the subrecipient level may occur and not be detected by SCCOE.

**Cause**

SCCOE did not have adequate internal controls to ensure compliance with subrecipient monitoring requirements.

**Repeat Finding from Prior Year**

No

**Recommendation**

We recommend SCCOE enhance internal controls to ensure compliance with subrecipient monitoring requirements.

**Corrective Action Plan**

In addition to the long-established practices and procedures regarding fiscal oversight, we will add a Federal subrecipient risk assessment monitoring checklist. Also see page 103.

None reported.



There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



**SANTA CRUZ**  
COUNTY OFFICE OF  
**EDUCATION**  
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Dr. Faris Sabbah, Superintendent • 400 Encinal Street, Santa Cruz, CA 95060 • Tel (831) 466-5600 • Fax (831) 466-5607 • [www.santacruzcoe.org](http://www.santacruzcoe.org)

**Corrective Action Plan:**

**Financial Statement Finding #2020-001:**

The Santa Cruz County Office of Education will perform a more in depth analysis of the Conversion Entry to ensure compliance with GASB. With the Auditor's clarification that the OPEB CERBT Trust with CALPERS is an agent-multi-employer plan, it is unlikely that it will be mistakenly classified as a single employer Trust on future financial statements.

**Corrective Action Plan:**

**Federal Awards Finding and Questioned Cost  
#2020-002 Subrecipient Monitoring:**

**Federal Program Affected:**

Program Name: Special Education

Cluster Agency Name: U.S.

Department of Education

Passed Through Agency: California Department of  
Education CFDA: 84.027, 84.027A, 84.173; 84.173A

In addition to the long established practices and procedures regarding fiscal oversight, we will add a Federal subrecipient risk assessment monitoring checklist.